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ANNUAL REPORT 1979

CORPORATE SUMMARY



DIRECTORS

Paul T. Conroy, Calgary, Alberta
Alan D. Fraser, Calgary, Alberta
Hubert A. Gray, Calgary, Alberta
John A. McAskill, Vancouver, B.C.

OFFICER

Alan D. Fraser — President

BANKER

The Royal Bank of Canada
6th Avenue and 5th Street S.W. Branch
Calgary, Alberta, Canada

AUDITORS

Thorne, Riddell & Co.
Calgary, Alberta

COUNSEL

DuMoulin, Black, Brazier & Hall
Vancouver, B.C.

TRANSFER AGENTS

Yorkshire Trust Company
Vancouver, B.C.

HEAD OFFICE

801, 805 — 8th Avenue S.W.
Calgary, Alberta. T2P 1H7
Canada.
Telephone: (403) 265-5960

CAPITALIZATION

Authorized: 10,000,000 shares without value
Issued: 1,752,702 shares
Dilution Factors: Warrants — 175,000 shares
Stock Options — 100,000 shares

STOCK EXCHANGE LISTING

Vancouver Stock Exchange — Vancouver, B.C. (symbol - WET)
NASDAQ (symbol - WSFPFQ)

PRESIDENT'S REPORT

Westfort Petroleum Ltd. was incorporated in March, 1977 and in April, 1978 was re-organized and entered the oil and gas industry. This first Annual Report of the Company for the period ending March 31, 1979 covers the initiation of an active exploration and development program. This high level of activity has been maintained to date in the new fiscal year and is expected to accelerate as established projects are developed and expanded and new prospects are explored.

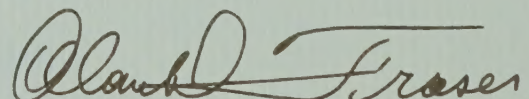
Westfort has concentrated its activity in the Appalachian Basin of the Eastern United States, primarily in Pennsylvania where the Company is a major investing partner in a program comprised of four separate, but geologically similar, gas development projects. The Company's interest in the four Pennsylvania projects ranges from 25% W.I. and 16.25% N.R.I. to 41.66% W.I. and 27.08% N.R.I. In this program, Westfort and its investing partners have committed to a specified number of wells in each project which earns the investors a continuing option to participate as the project expands by land acquisition. The total program could ultimately involve several hundred wells. At June 13, 1979, Westfort and partners had drilled 43 wells in the Pennsylvania program, of which 42 have been completed as gas wells and 1 abandoned.

Westfort is also participating in another Appalachian Basin program which includes 5 projects in Southeastern Ohio and the adjoining part of West Virginia. The Company has a 10% W.I. and an approximate 6.5 N.R.I. At mid-July 1979 this program had accounted for 37 wells of which 36 are either oil and/or gas wells and one is a dry hole. Undeveloped lands in these projects provide an expansion potential of 80 additional wells.

In the Southern United States Westfort is involved in a number of prospects which are in various stages of evaluation.

The Company's current outlook is toward continued emphasis in the United States where lighter royalty burdens and superior market availability and product prices prevail.

I would like to thank the shareholders for their support during the last year and also the staff of Westfort whose efforts have sustained a period of rapid growth by the Company.

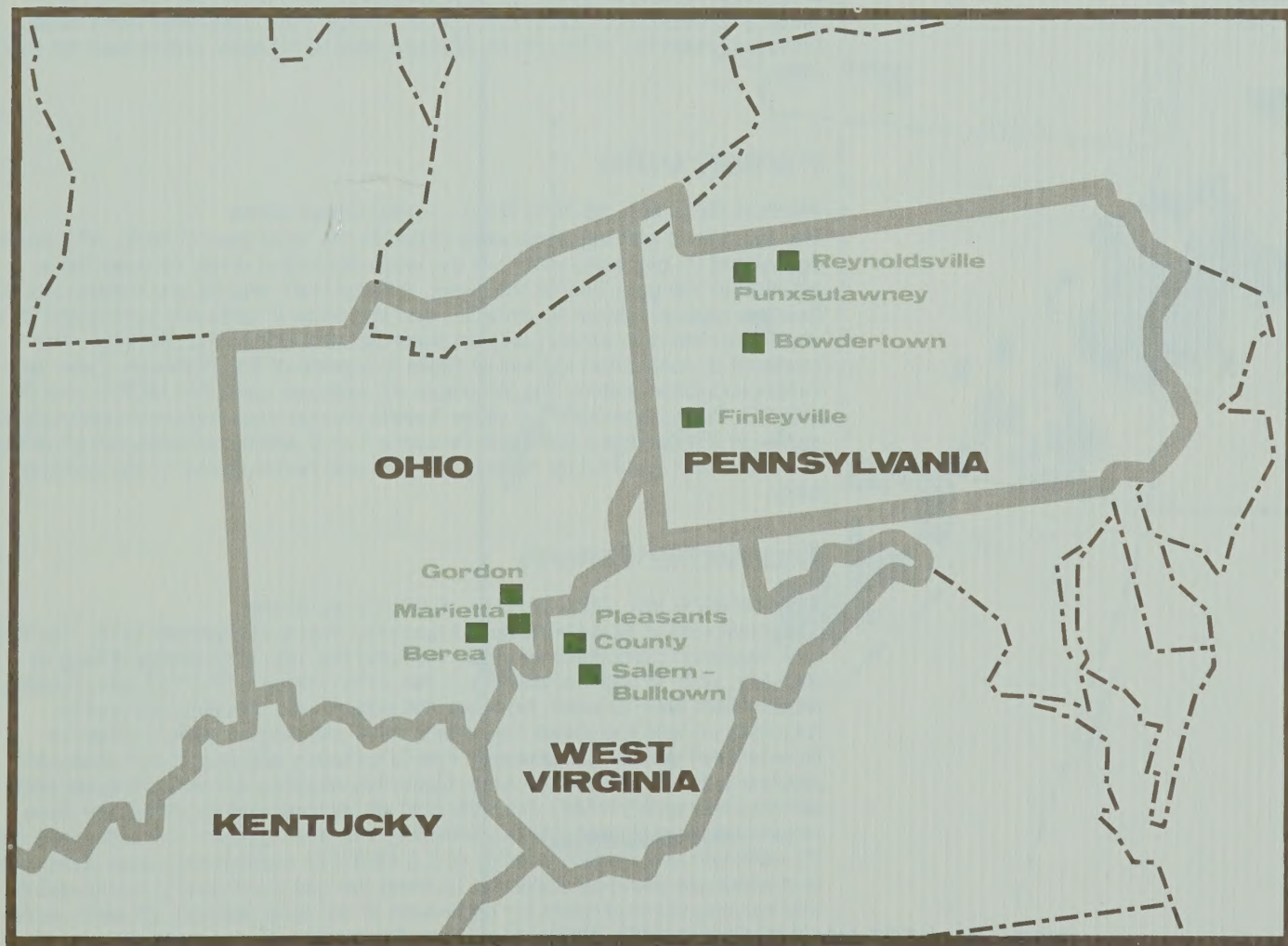


Alan D. Fraser
President

OPERATIONAL REVIEW

In the Pennsylvania program, Westfort's interest in the 4 projects ranges from 25% W.I. and 16.25% N.R.I., to 41.66% W.I. and 27.08% N.R.I.

In this program, Westfort and other investing partners have committed to a specified number of wells in each project which earns the investor a continuing option to participate as the project expands by land acquisition. At June 13, 1979, Westfort had participated in 43 wells in the Pennsylvania program of which 42 have been completed as gas wells and one abandoned. The 4 projects comprising the program are: Punxsutawney and Reynoldsville in Jefferson County, Finleyville in Washington County and Bowdertown in Indiana County. Current status, expansion potential and Westfort's interest in these four projects is as follows:



APPALACHIAN BASIN PROJECTS

OPERATIONAL REVIEW

Punxsutawney

Westfort 25% W.I., 16.25% N.R.I. — 849 Gross Acres

Eleven wells were drilled during the period June - September 1978, which fulfilled the earning requirement. All 11 wells were completed as gas wells and the first were placed on stream in mid-April 1979, with the others following in subsequent weeks. These wells are producing into the system of Consolidated Gas Supply Corporation at an initial price of \$1.73/MCF. Determination of stabilized flow rates will probably require several weeks of production. Significance of early production rates at Punxsutawney is affected by the usual start-up problems and the fact that back-pressure of the Consolidated sales line is approximately 500 psi, considerably higher than during the winter months. However, daily rates over the initial few weeks of production have averaged 160 MCF/Day/Well, with individual well rates ranging to volumes in excess of 330 MCF/Day. Four additional wells have been budgeted for 1979 with an ultimate total of 36 wells anticipated for this area.

Finleyville

Westfort 25% W.I., 16.25% N.R.I. — 660 Gross Acres

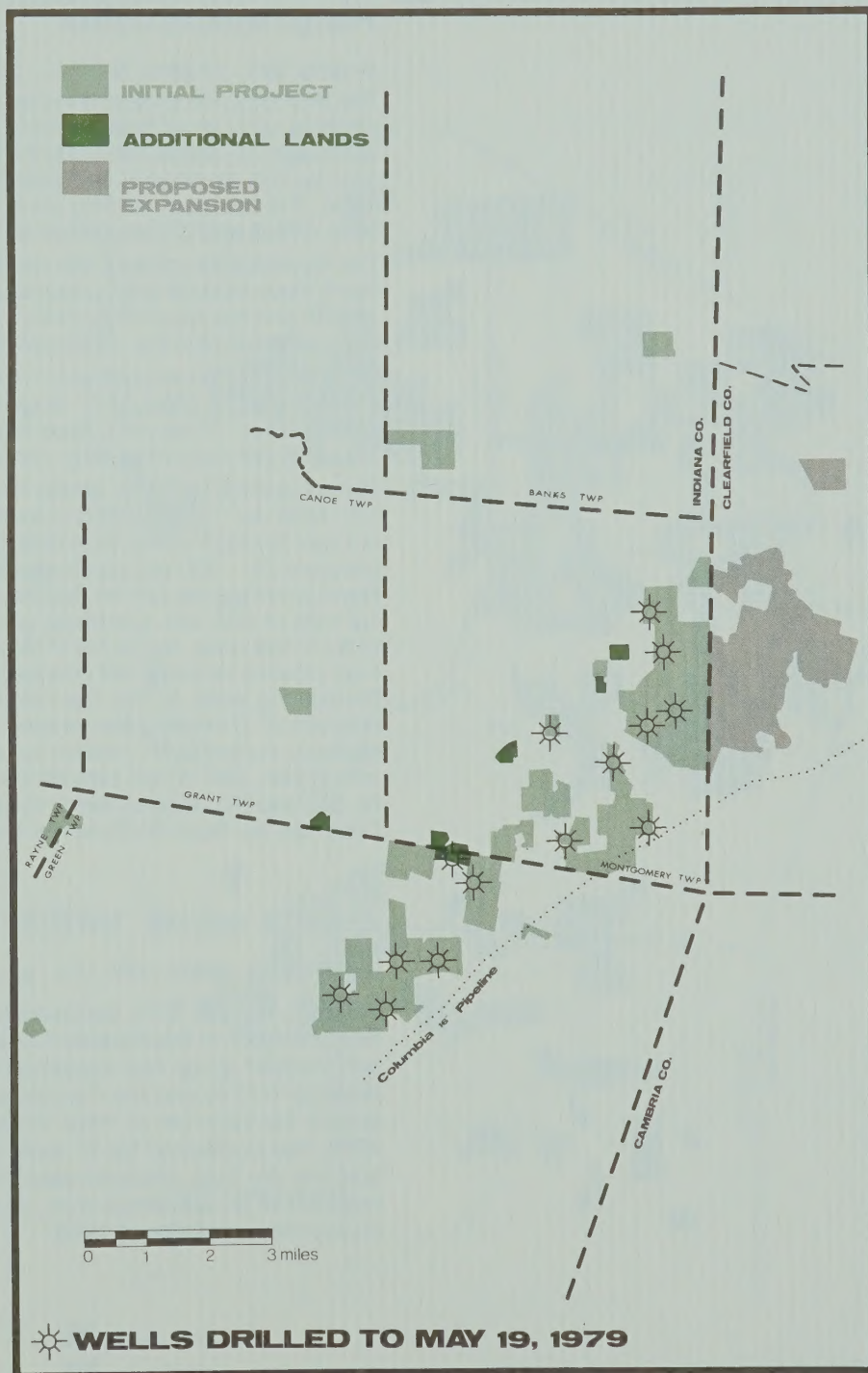
The required 4 earning wells were drilled in the latter part of 1978. All 4 were completed as gas wells with 2 of the wells indicating some oil potential in addition to the gas. Two of the wells, Wilkinson #1 and #2 are contracted to Peoples Natural Gas at \$1.45/MCF, and the other 2 wells are contracted on a short term basis to Jones Laughlin Steel Co. at a price of \$1.92/MCF. The crude oil is contracted to Quaker State at a price of \$15.50/barrel. Over its initial production history, the Wilkinson #2 well averaged 170 MCF/D and 24 B.O.P.D. Production from the other 3 wells has not had sufficient continuity to establish a meaningful potential. Probably 1 or 2 additional wells will be drilled at Finleyville if justified by market demand and performance of the existing wells.

Bowdertown

Westfort 40% W.I., 26% N.R.I. — 6,000 Gross Acres

The initial well at Bowdertown was spudded in late September 1978. The 18th well has been completed as a gas well and the 19th is currently drilling at mid-July, with 16 wells remaining in the 1979 program. The first year earning requirement was 10 wells, however the project was accelerated due to negotiations with Columbia Gas which have assured an early market for Bowdertown gas by compression into Columbia's 500 psi 16 inch diameter pipeline which traverses the area. Columbia requires a minimum sustained deliverability of 2.5 MM/D to justify cost of compression facilities and have requested 25 wells capable of producing into their system. It is estimated that 25 wells will assure deliverability of 2.5 MMCF/D considering usual down time and adequate stand-by capacity. To meet the gas purchaser's requirements and earning commitments for expansion of our land position, 25 wells were scheduled for 1979. Wells constituting the current 25 well program, in addition to the 10 wells drilled in the first year's program, should provide the above noted earning and evaluation requirements and result in a total of 35 wells from which approximately 25 can be selected for initial hook-up. This selection will be made according to gathering system logistics, which in turn, are an integral part of overall development plans for the Bowdertown area.

OPERATIONAL REVIEW



BOWDERTOWN PROJECT

OPERATIONAL REVIEW

Reynoldsville

41.66% W.I., 27.08% N.R.I. — 14,500 Gross Acres

The Reynoldsville project is potentially the largest of the four Pennsylvania projects, with an ultimate earning capacity of 29,000 acres if all options are exercised. An additional 3,000 acres will probably be acquired from another source. This acreage is distributed across a gross area of 10 miles by 20 miles. The first year earning commitment is 26 wells of which 11 have now been drilled with 10 completed as gas wells and one abandoned.

The Reynoldsville project can be divided into the north and south areas. The North Reynoldsville area comprises roughly 2/3 of the above noted acreage spread and the South Reynoldsville area the remaining 1/3 of the original farmout lands plus the additional 3,000 acre expansion.

Eight wells drilled to date within the South Reynoldsville area have net pay thickness in the 50 to 65 ft. range which is about 15% less than at Bowdertown. Three wells have now been drilled in the North Reynoldsville area and are currently being evaluated.

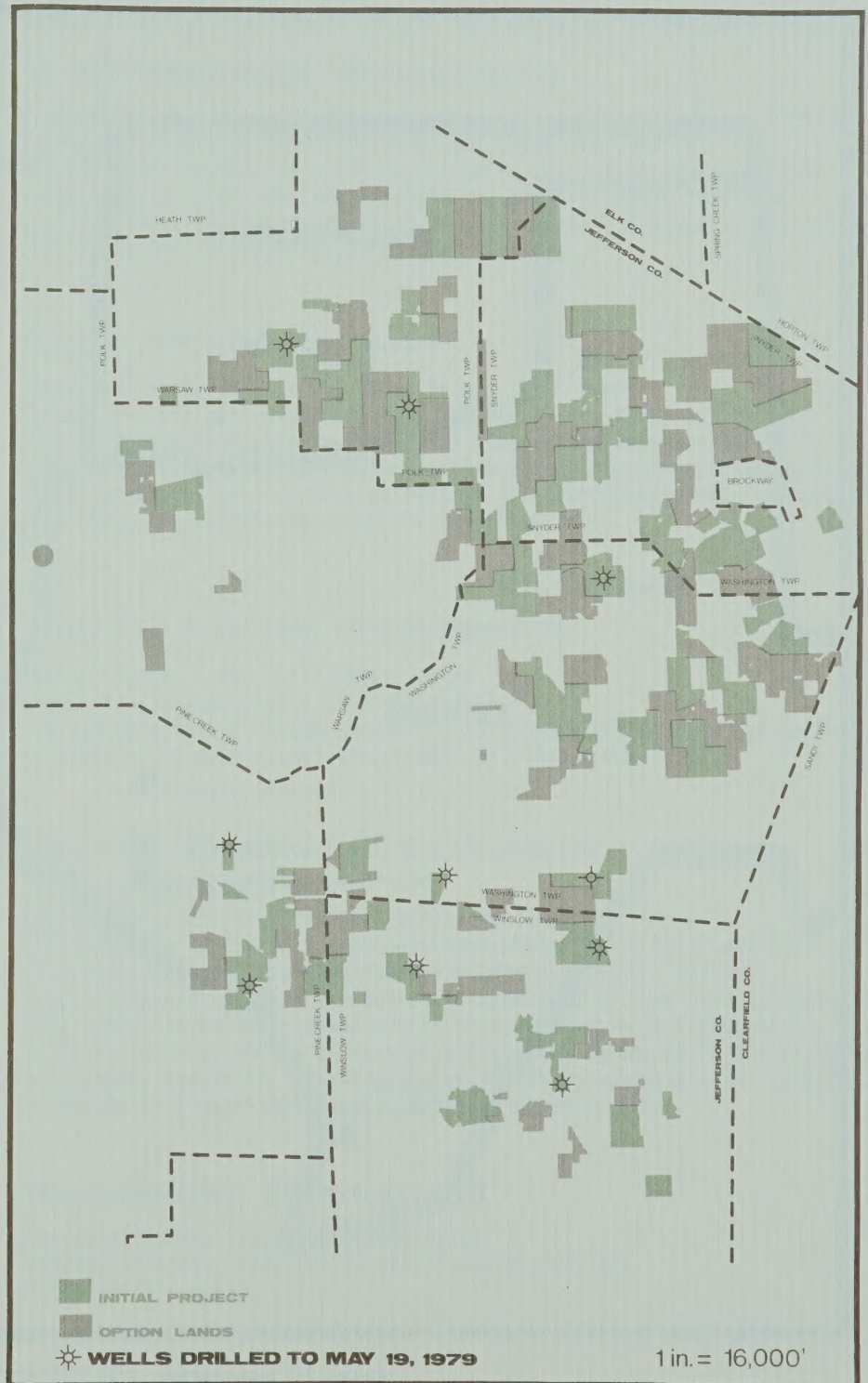
Market outlook at Reynoldsville has been enhanced by recent discussions with National Fuel resulting in an agreement by that company to purchase our gas throughout the Reynoldsville area where they have an extensive low pressure (50 - 300 psi) pipeline system. Our existing wells in the South Reynoldsville area can be tied into this system with, in most cases, less than 1/2 mile of flow line. Contracts are currently being prepared covering present wells in this area. In the North Reynoldsville area, proximity to the National Fuel pipeline network will now become a factor in locating the remainder of the earning wells. In this manner, the drilling program will serve the three way purpose of: i) meeting the earning commitment; ii) providing subsurface geologic control (with modern log data) for guidance in future drilling and land acquisition, and; iii) will provide immediate cash flow as successful wells can be tied into the existing low pressure National Fuel gathering system. Gas price has not been finalized but is expected to be upwards of \$2.00 per MCF.

OHIO and WEST VIRGINIA

9,525 Gross Acres. 10% W.I., approx. 6.5% N.R.I. A.P.O.

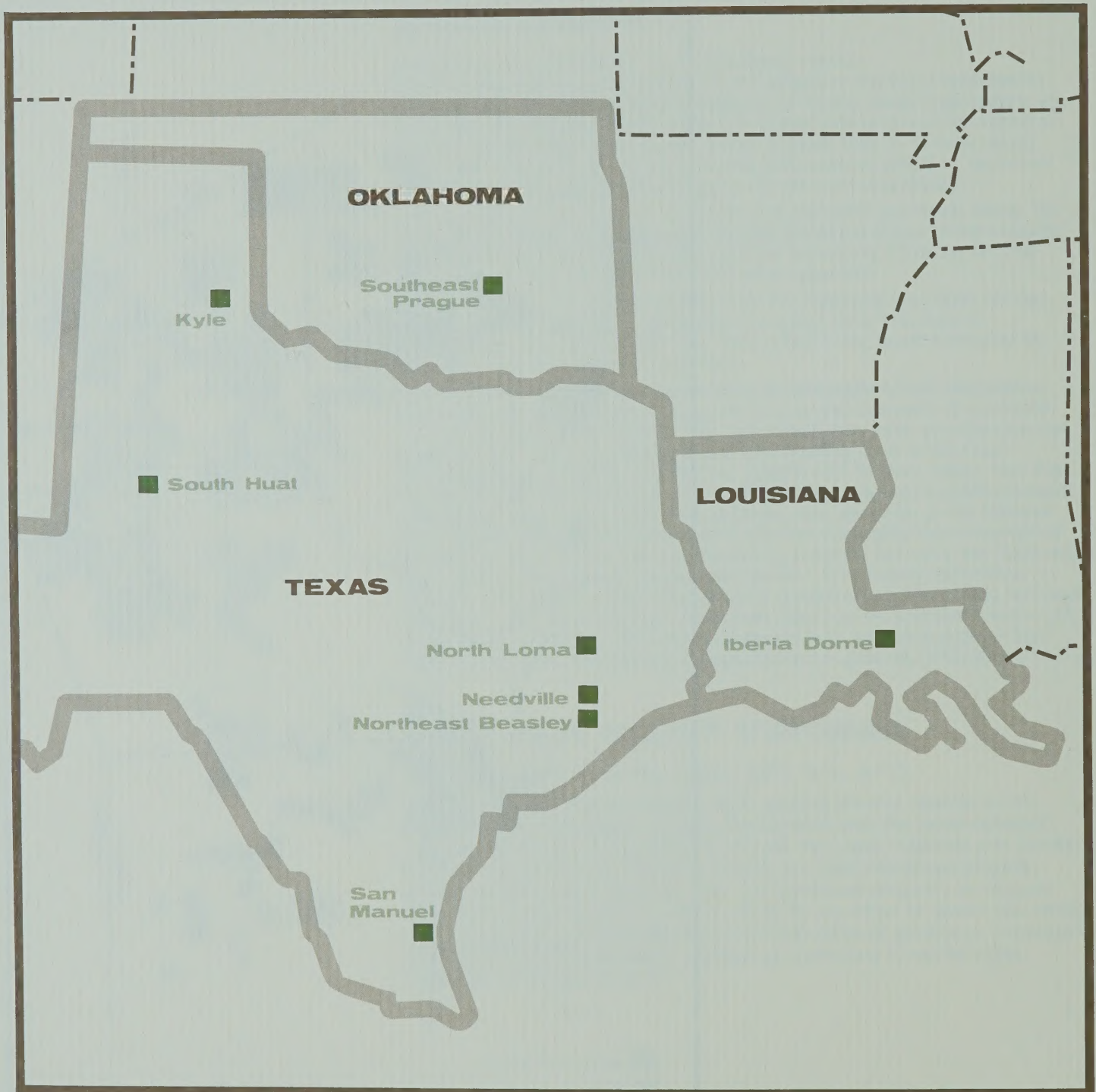
Westfort, in April 1978, assumed a 10% working interest position in the Berea project in Southeastern Ohio. Participation with the same operator and investor group has expanded to include the nearby Marietta and Gordon projects in Ohio and the Pleasants County and Salem-Bulltown projects across the state line in West Virginia. The combined program, to mid-July 1979, had accounted for 37 wells of which 36 are either oil and/or gas wells, and one dry hole. Undeveloped lands in these projects provide an expansion potential of 80 additional wells, of which an estimated 10 will be drilled during the remainder of 1979.

OPERATIONAL REVIEW



REYNOLDSVILLE PROJECT

OPERATIONAL REVIEW



SOUTHERN UNITED STATES PROSPECTS

OPERATIONAL REVIEW

SOUTHERN UNITED STATES PROSPECTS San Manuel Prospect

Hidalgo County, Texas. 320 Gross Acres
Westfort — 20% W.I. B.P.O. and 12% W.I., 9.9% N.R.I. A.P.O.
A 9,000 ft. test of the Frio sands was drilled on this prospect in September, 1978 and abandoned after finding only a marginally economic gas zone overlying water in a sandstone reservoir below 8,000 ft. A follow-up well will probably be drilled at a structurally higher location.

Kyle Prospect

Wheeler County, Texas. 1,323 Gross Acres
Westfort — 5% W.I., 4.125% N.R.I. B.P.O., 3.09375% N.R.I. A.P.O.
This project features re-entry of a 12,400 ft. cased well drilled in 1967 in which electric log analysis indicates two gas zones that were overlooked or were considered non-economic at the time. The operating partner is currently attempting to complete the well in the lowermost zone.

North Luma Prospect

Walker County, Texas. 4,172 Gross Acres
Westfort — Carried B.P.O., 2.5% W.I. A.P.O.
Primary objective of this gas prospect is the Eocene Wilcox sand at a depth of 8,000 ft. The earning well will probably be drilled in late 1979.

Iberia Dome - Louisiana

Louisiana. 105 Gross Acres
Westfort 23% W.I., 17.25% N.R.I. B.P.O. and 10.35% A.P.O.
The 2 earning commitment wells have been drilled on this lease, and both have been suspended pending detailed studies to determine the best engineering procedures. The presence of substantial oil reserves is indicated by a number of old wells on the lease which were suspended because of difficulties arising from the unconsolidated reservoir sands which tend to plug off pumping equipment. This problem can usually be solved by "gravel pack" completions. A third location will probably be drilled in 1979.

Nechville Prospect

Fort Bend County, Texas. 800 Gross Acres
Westfort 25% W.I., 19.5% N.R.I. B.P.O. and 16.25% W.I., 12.68% N.R.I. A.P.O.

OPERATIONAL REVIEW

Needville Prospect (Continued)

The earning well on this prospect was drilled in mid-March 1979 and was dry and abandoned. The main objective sand of the Cretaceous Frio sequence was found with good porosity development but 18' structurally low to the control well. Re-mapping the area indicates that 400 acres is still prospective and will probably be drilled or farmed out during 1979.

Southeast Prague Prospect

Pottawatomie County, Oklahoma. 1,517 Gross Acres
Westfort 33 1/3% W.I. B.P.O. and 20% W.I. A.P.O.

The primary potential in this prospect is oil bearing lenticular sands of Basal Cretaceous age at a depth of 4,000 ft. The earning well was drilled in May 1979 and abandoned after finding no sand development. The geology will now be revised to determine whether a second well is justified.

South Huat Prospect

Gaines County, Texas. 1,120 Gross Acres
Westfort 6.66% W.I., 5.15% N.R.I. B.P.O. and 3.99% W.I., 3.09% N.R.I. A.P.O.

This Strawn reef seismic prospect was drilled in June 1979 and abandoned after finding the reef structurally low and water laden. Several thin zones in the overlying Wolfcamp formation were oil bearing but deemed to be non-commercial.

Beasley Prospect

Fort Bend County, Texas. 200 Gross Acres
Westfort 10% W.I., 4.45% N.R.I.

The Dunaway #1 well on the east flank of the Beasley structure was drilled in June-July 1979. The operator is currently attempting to complete in one or more zones.

OIL & GAS RESERVES

The reserve evaluations are based on reserve reports prepared in 1979 by an independent consultant.

These evaluations only include that portion of the Company's two main areas of production, Pennsylvania and Ohio, which were drilled and evaluated up to the date of the reserve reports. Since these reports were prepared, the Company has drilled an additional 15 wells in these areas.

The Company has also drilled 7 wells in a number of other prospects scattered throughout the Southern United States. No reserves have been attributed to these prospects as they have not yet been evaluated by an independent consultant.

GAS

PROPERTY	PROVEN (BCF)		PROBABLE (BCF)		TOTAL	
	GROSS	NET	GROSS	NET	GROSS	NET
PENNSYLVANIA						
Bowdertown	113.4	28.0	42.0	10.4	155.4	38.4
Finleyville.....	6.4	1.0	5.8	1.0	12.2	2.0
Punxsutawney	29.0	4.5			29.0	4.5
Reynoldsville	28.0	6.9	21.9	5.4	49.9	12.3
	<u>176.8</u>	<u>40.4</u>	<u>69.7</u>	<u>16.8</u>	<u>246.5</u>	<u>57.2</u>
OHIO						
Berea9	.1			.9	.1
	<u>178.7</u>	<u>40.5</u>	<u>69.7</u>	<u>16.8</u>	<u>247.4</u>	<u>57.3</u>

OIL

PROPERTY	PROVEN (MSTB)		TOTAL	
	GROSS	NET	GROSS	NET
OHIO				
Berea	<u>453</u>	<u>51</u>	<u>453</u>	<u>51</u>

FINANCIAL REVIEW

Westfort was extremely active in its first year of oil and gas exploration. Capital expenditures totalled \$2,962,000 in 1979 and the majority of the funds were expended in the low risk gas development programs in the Appalachian Basin. These expenditures established oil and gas reserves valued at approximately \$36,000,000 based on a reserve evaluation by independent consultants. The programs were financed through public underwritings and private placements, netting \$2,870,000 and through interim bank loans. The Company has stock purchase warrants expiring in September, 1979, which if fully converted will represent an issuance of 175,000 shares and net the Company's treasury \$2,160,000. These funds will be used to reduce the demand bank loan and to finance ongoing exploration and development programs.

Initial cash flow from some of the Pennsylvania and Ohio properties has been received by the Company and will increase substantially in 1980 and future years as additional wells are brought on stream.

Westfort intends to finance future exploration and development programs through the use of cash flow from producing properties, bank production loans and participation in drilling funds. Management of the Company feels that reserves discovered during the past year has provided a solid financial base for future growth.

FINANCIAL

WESTFORT PETROLEUMS LTD (formerly the Verde Petroleum Co. Ltd.) (Incorporated under the laws of British Columbia) BALANCE SHEET AS AT MARCH 31st, 1979

Assets

CURRENT ASSETS	1979	1978
Cash	\$	\$ 196,348
Accounts receivable	88,836	
Drilling incentive credit receivable	18,989	
Drilling advances ..	164,928	
	272,753	196,348
PROPERTIES AND EQUIPMENT (note 3)	2,124,900	28,624
INCORPORATION COSTS		458
	\$ 2,397,653	\$ 225,430

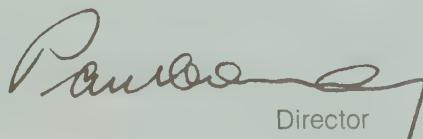
Liabilities

CURRENT LIABILITIES	1979	1978
Bank indebtedness (note 4)	\$ 16,050	\$
Accounts payable	320,267	6,529
Promissory note (note 5)	80,027	
	416,344	6,529
ADVANCES		155,000

Shareholders' Equity

CAPITAL STOCK (note 6)		
Authorized		
10,000,000 shares without par value		
Issued		
1,752,502 (1978 - 660,002)	2,957,661	88,438
DEFICIT	(976,352)	(24,537)
	1,981,309	63,901
	\$ 2,397,653	\$ 225,430

Approved by the Board


Director


Director

FINANCIAL

WESTFORT PETROLEUMS LTD STATEMENT OF LOSS AND DEFICIT YEAR ENDED MARCH 31st, 1979

		From March 22, 1977 (date of incorporation) to March 31,
	1979	1978
REVENUE		
Oil and gas production.....	\$ 5,419	\$
Interest income	4,858	
	<u>10,277</u>	
EXPENSES		
General and administrative.....	172,415	11,667
Interest and financing costs	71,447	82
Dry holes and abandonments		
Petroleum and natural gas.....	685,205	12,788
Mining properties.....	28,624	
Depreciation and depletion	4,401	
	<u>962,092</u>	<u>24,537</u>
LOSS FOR THE PERIOD.....	951,815	24,537
DEFICIT AT BEGINNING OF PERIOD.....	24,537	
DEFICIT AT END OF PERIOD.....	<u>\$ 976,352</u>	<u>\$ 24,537</u>
LOSS PER SHARE	<u>\$ 0.72</u>	<u>\$ 0.08</u>

STATEMENT OF CHANGES IN FINANCIAL POSITION YEAR ENDED MARCH 31st, 1979

		From March 22, 1977 (date of incorporation) to March 31,
	1979	1978
WORKING CAPITAL DERIVED FROM		
Advances for share purchase	\$ 52,000	\$155,000
Issue of shares	2,869,223	88,438
	<u>2,921,223</u>	<u>243,438</u>
WORKING CAPITAL APPLIED TO		
Operations	233,127	24,537
Properties and equipment	2,814,506	28,624
Conversion of advances to shares	207,000	
Incorporation costs		458
	<u>3,254,633</u>	<u>53,619</u>
INCREASE (DECREASE) IN WORKING CAPITAL POSITION	(333,410)	189,819
WORKING CAPITAL AT BEGINNING OF PERIOD.....	189,819	
WORKING CAPITAL (DEFICIENCY) AT END OF PERIOD.....	<u>\$ (143,591)</u>	<u>\$189,819</u>

FINANCIAL

NOTES TO FINANCIAL STATEMENTS YEAR ENDED MARCH 31st, 1979

1. Accounting Policies

- a) Petroleum and Natural Gas Operation
Cost of oil and gas rights and exploration costs are capitalized when acquired. When undeveloped rights and exploration costs are proven to be productive, the accumulated cost is transferred to the developed oil and gas account and charged to earnings by an annual provision for depletion calculated on the unit of production method based on the estimated proven oil and gas reserves as determined by independent engineers. When such rights and costs in an area are surrendered, the accumulated costs are charged to earnings. All costs of drilling wells are initially capitalized. If, on completion, a well is not capable of commercial production, its cost is written off. The costs of successful wells are depleted on the unit of production method in the same manner as the costs of developed oil and gas rights.
- b) Depreciation
Depreciation of petroleum and natural gas production equipment is provided on the unit of production method based on estimated proven oil and gas reserves. Depreciation of other equipment is provided on the declining balance basis using the annual rate of 20%.
- c) Joint Ventures
The Company's exploration and development activities related to petroleum and natural gas are conducted jointed with others and, accordingly, the accounts reflect only the Company's proportionate interest in such activities.

2. Comparative Figures

Certain 1978 comparative figures have been reclassified to conform with the financial statement presentation adopted for 1979.

3. Properties and Equipment

	1979		1978
	Cost	Accumulated Depreciation and Depletion	Net
Petroleum and natural gas properties and equipment			
Developed	\$1,926,680	\$ 414	\$
Undeveloped	182,686		182,686
Mining properties			28,624
Other equipment	19,935	3,987	15,948
	<u>\$2,129,301</u>	<u>\$4,401</u>	<u>\$2,124,900</u>

4. Bank Indebtedness

Bank indebtedness is secured by accounts receivable, certain petroleum and natural gas properties, and a pledge of the proceeds on conversion of share warrants outstanding at March 31, 1979.

FINANCIAL

NOTES TO FINANCIAL STATEMENTS, (Continued)

5. Promissory Note

The promissory note (U.S. \$69,801) is guaranteed by a third party and bears interest at prime bank rate plus 1% to maturity on January 3, 1980.

6. Capital Stock

(a) During the year ended March 31, 1979, the following shares were issued:

	Number of shares	Consideration
For cash	575,000	\$2,662,223
On conversion of advances	517,500	207,000
	<u>1,092,500</u>	<u>\$2,869,223</u>

b) There are Share Purchase Warrants outstanding entitling the holders to purchase 175,000 shares of the Company at \$12.35 per share up to September 6, 1979.

c) During the year ended March 31, 1979 the Company granted an option to one of its officers, to purchase 100,000 shares in annual installments over five years at various prices commencing at 45¢ per share and escalating to 85¢ per share at the end of the fifth year.

7. Statutory Information

Remuneration paid during the year to the directors and senior officers of the Company amounted to \$85,832 (1978 - \$14,898).

AUDITORS' REPORT

To the Shareholders of Westfort Petroleums Ltd. (formerly Rio Verde Developments Ltd.)

We have examined the balance sheet of Westfort Petroleums Ltd. (formerly Rio Verde Developments Ltd.) as at March 31, 1979 and the statements of loss and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

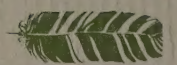
In our opinion, these financial statements present fairly the financial position of the company as at March 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The 1978 comparative figures are based on financial statements reported upon by other auditors.

Calgary, Alberta
July 31, 1979

Thorne Riddell & Co.
Chartered Accountants

design:



Tim Quill Studio

lawson graphics western limited
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